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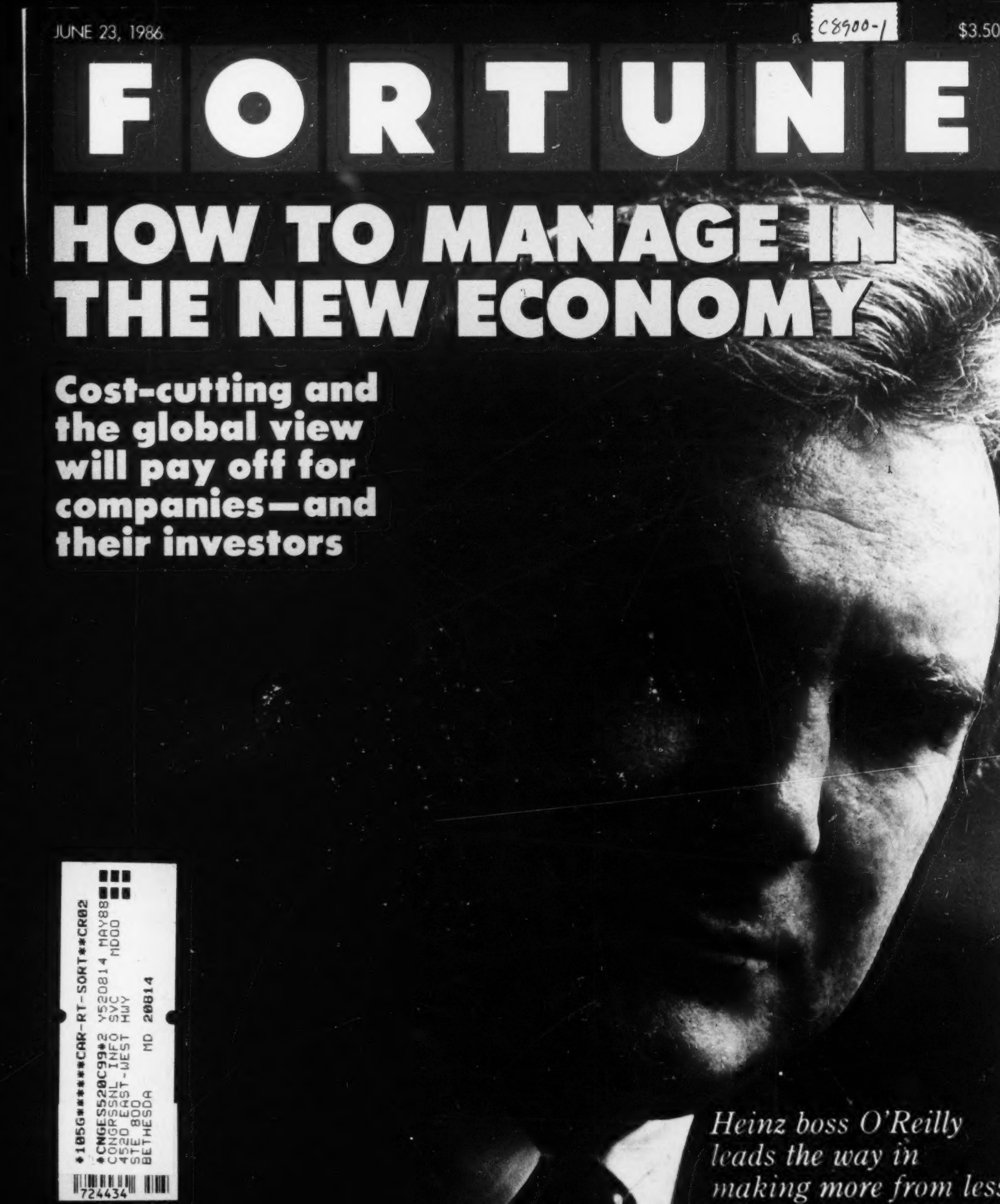
FORTUNE

HOW TO MANAGE IN THE NEW ECONOMY

Cost-cutting and the global view will pay off for companies—and their investors



Heinz boss O'Reilly leads the way in making more from less

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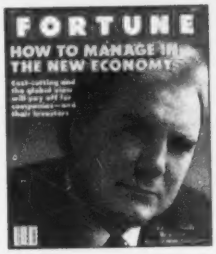

For the cover, Alen MacWeeney photographed a chief executive who responded early and successfully to the new economy. *See page 18.*

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AMERICA'S NEW ECONOMY

WHO WILL GAIN

Almost everybody will, but not equally. Young people's prospects will brighten. The fortunes of old folks will dim.

Like plants that pop up and thrive as an ice age recedes, jobs should flourish beneath the warm sun of the new economy. The 3%-a-year growth anticipated by the economists surveyed by FORTUNE should bring a gratifying increase in consumer buying power. Unlike the gentle rain from heaven, though, these benefits will not fall equally on all. Who gains how much will depend on what a person does, where he lives, and whether he is young, old, or somewhere in between.

According to the Bureau of Labor Statistics, employers will hire 14.6 million more workers by 1995 if the economy grows roughly 3% a year. That's 4.1 million more new jobs, the BLS says, than would be created if the economy grew only 2.2% a year, as it has since the early Seventies. Wallets will bulge with extra money. After adjusting for inflation, the BLS says, faster growth would send disposable income per capita percolating up at a 1.6% annual rate till 1990, instead of the 1.2% associated with lower economic growth. For a family of four with today's median income of $31,100 a year, that spells a $2,000 rise in after-tax purchasing power over the next four years.

Many occupations would grow fast whether the economy sped up or not, among them accounting and nursing. But the extra boost from a stronger economy will fuel even more demand. For example, computer programmers, already in short supply, will find employers pursuing them all the more ardently (see chart).

Some jobs that languish in the economy's backwaters in hard times will get a special kick out of faster growth. Typists have been losing out to computers; their numbers will now creep up instead of shrinking. Jewelers and silversmiths will proliferate as the increase in income lifts demand for luxuries.

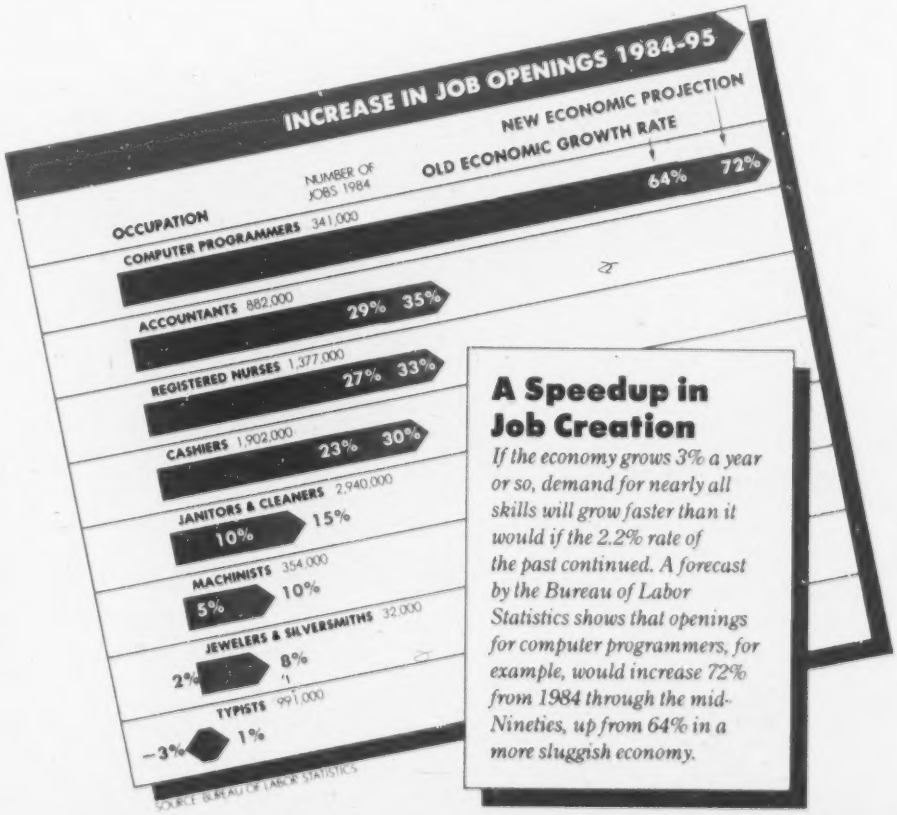
Job seekers will have better luck in some parts of the country than in others. Pickings should be especially good in New England, where high-technology openings promise to keep multiplying. The Southeast will benefit from both the growth of high-tech industries and an influx of retirees. The new economy will reverse the rust belt's decline. Cheap oil, which puts money in consumers' pockets, will help. That is good news for makers of durable consumer items like heavy appliances and automobiles, whose manufacture is concentrated in the Midwest.

Data Resources Inc., an economic forecasting firm in Lexington, Massachusetts, has projected the impact of declining oil prices on jobs in various parts of the country. For every dollar the price of oil falls below $18 a barrel, the firm says, five industrial states—Illinois, Michigan, Ohio, Pennsylvania, and New York—should see total employment rise 8,000 to 12,000. Oil-producing Texas could lose from 17,000 to 29,000 jobs.

The fortunes of both the poor and the rich will improve. The poor will gain as economic growth brings an expansion of relatively unskilled jobs. The rich will benefit because they are the largest holders of financial assets, which tend to perk up when inflation is low. The middle class, including baby boomers who had a rocky time as they crowded into starting jobs in recent years, will also gain. Now just beginning to move into their middle years, the 25- to 35-year-olds of a decade ago are mostly seasoned, productive workers ready to take advantage of the economy's effervescence.

But pity the old. High interest rates on bonds and an indexed, inflation-proof Social Security system have made this group by far the biggest gainers in recent years. Chase Econometrics projects that their income growth will slow over the next four years. But the old will be exceptions: Most Americans will experience better times than they have in years.

— Myron Magnet



A Speedup in Job Creation

If the economy grows 3% a year or so, demand for nearly all skills will grow faster than it would if the 2.2% rate of the past continued. A forecast by the Bureau of Labor Statistics shows that openings for computer programmers, for example, would increase 72% from 1984 through the mid-Nineties, up from 64% in a more sluggish economy.

A SALES KICK FROM BEER WITHOUT THE BUZZ

Beer consumption is flat, but sellers are finding sparkle in brew without alcohol. A marketing problem: They can't call it beer.

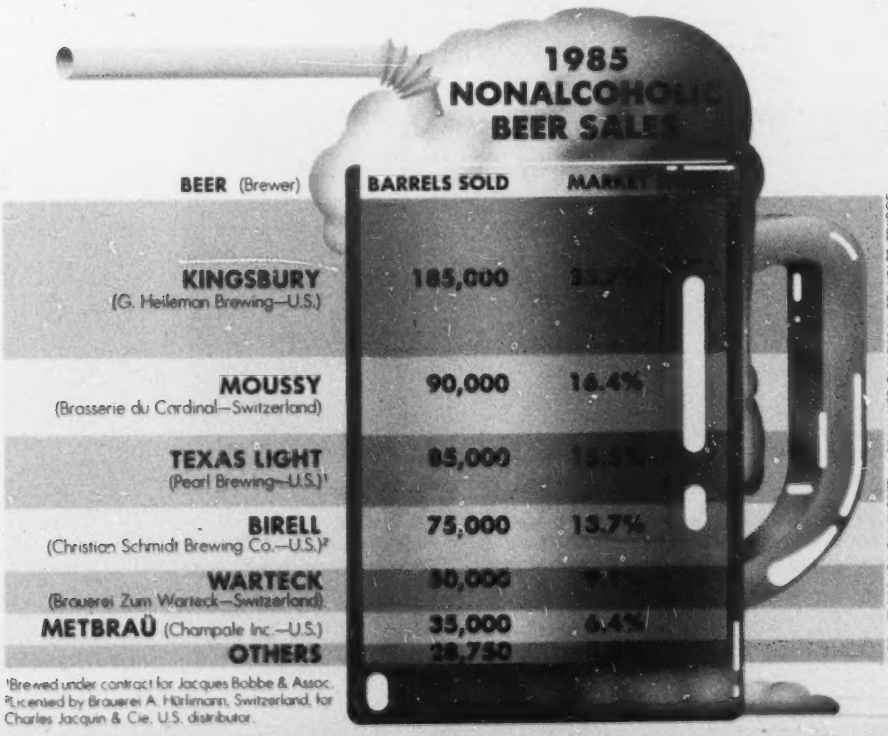
NONALCOHOLIC BEER, once dismissed by lovers of the real stuff as a pale potion without a punch, is coming out of its corner for another round. Brewers are introducing brands they say taste better, and as the beer-drinking season nears they are hawking old products with new advertising.

Sales of nonalcoholic beer rose 25% last year, to 549,000 barrels. The total market, far huger at 183 million barrels, grew only 0.3%. Makers of nonalcoholic beer are benefiting from the trends toward fitness and moderate drinking: sober suds contain only about 50 calories per 12-ounce bottle, compared with 100 or so in light beer, which is about 4.2% alcohol, and 150 in regular beer, with 4.7% alcohol. Low-alcohol beer, with 2.3% alcohol, looked like a potential winner a few years ago but has flopped. Sales fell some 7% last year to about 500,000 barrels.

The battle among the biteless brews has been foaming in the past few months. In March, Stroh Brewery Co. began importing Barbican, a nonalcoholic beer produced by Britain's Bass Brewery. Last year G. Heileman Brewing Co., whose Kingsbury brand is the top seller in the U.S. with 33.7% of the market, introduced Black Label Non-Alcoholic Malt Beverage. And industry experts say Miller Brewing may be cooking up a nonalcoholic beer, though the Milwaukee brewer denies it. In May, Switzerland's Moussy, the No. 1 imported nonalcoholic beer, launched a $2-million ad campaign, spending 25% more than last year. Even Guinness, the high priest of dark and bitter stout, has plunged into the market with Kaliber, which Guinness executives compare in taste to Heineken, the No. 1 U.S. imported beer. Guinness began selling Kaliber in New York last year and has expanded distribution to 30 states.

Beer industry executives say that nonalcoholic beer is aimed at adults over 25, primarily male. Concern about getting too tipsy to drive could boost sales at bars and restaurants, but marketers hoping to play up that angle face a new problem: if the brew can't make you drunk, you can't call it beer. In April a ruling by the Treasury Department went into effect prohibiting brewers from calling their beverages beer if the products are less than 0.5% alcohol. Permitted terms include malt beverage and brew. If the brews contain just a trace of alcohol—and most do—sellers cannot call them alcohol free. Nonalcoholic is the strongest claim allowed. Beer executives admit the rules could hurt sales, and Moussy executives say they will fight them.

—Michael Rogers



¹Brewed under contract for Jacques Bobbe & Assoc.
²Licensed by Brauerei A. Hürlimann, Switzerland, for Charles Jacquin & Cie, U.S. distributor.

SOURCE: BEVERAGE MARKETING ESTIMATES. ILLUSTRATION BY JOE LERTOLA

GOING FOR BROKERS

RE/MAX offers a deal that real estate agents like.

WANTED: Top real estate salesmen. Highest commissions paid. Independence guaranteed. Beginners need not apply.

Thousands of real estate agents, lured by that pitch, have been joining franchises of RE/MAX International, possibly the fastest-growing residential real estate brokerage in the U.S. Since 1982 it has nearly quadrupled its agents to 11,500.

The key to RE/MAX's sucess is the way it runs its offices. In a conventional setup agents split their 5% to 7% commission on sales with the brokerage's owner. He pays for rent, advertising, and other overhead, and keeps the rest as profit. Under RE/MAX's system, agents get the whole commission. They split the overhead bill among themselves and pay a monthly management fee to the office owner, who purchased the franchise for between $15,000 and $25,000; the owner sends 15% of his fees back to regional and national headquarters. Beginners cannot afford the typical agent's annual bill of $12,000 to $15,000, but big producers earn more than they would under the 50-50 split.

Smaller brokerages are trying the 100% concept, and RE/MAX founder David Liniger, 40, says he is pondering other applications. That could mean travel or insurance agencies, or other businesses where superstar salesmen bring in profits that help support the tyros.

—Edward C. Baig